



# Responsible Sourcing

At Best Buy, we partner with approximately 160 factories, mainly in China, to produce our private label products. We work with these suppliers on the design, production and testing of these products, and partner with them to ensure they meet our expectations for safe workplaces where workers are treated fairly.

# Supply Chain Sustainability Program

EN32, HR4-6, HR9-10



Through our Supply Chain Sustainability (SCS) program, we seek to control risk, enhance the partnership with our suppliers by building their capacity for responsible business practices, and create value for all stakeholders. Our leadership in the Electronic Industry Citizenship Coalition (EICC) includes participating on their Board of Directors, and allows us to partner with many of the national brands we sell, including Apple, Intel, Microsoft and Samsung. Collectively, we embrace a common supplier code of conduct and audit methodology that creates business value by improving working and environmental conditions in the supply chain.



## Part 1 – Code Introduction and Adoption

Before working with new suppliers, we provide an in-depth training on our code and program, and conduct a third-party audit of their facilities, which includes environmental and human rights screening criteria. In fiscal 2016, we screened 100 percent of our new suppliers utilizing environmental and human rights criteria and provided these suppliers with an on-site training focused on the EICC code. When conducting pre-contract screenings, we identify non-conformance and require the supplier to take corrective action. If there is a critical non-conformance, it must be addressed immediately; suppliers that are unwilling or unable to address critical violations are rejected. In the past fiscal year, we rejected 18 percent of potential new factories based on our initial screening.

## Part 2 – Self-Reporting

Existing suppliers assess their performance against the EICC code by completing an annual self-assessment questionnaire (SAQ) and submitting quarterly key performance indicator (KPI) reports. The SAQs help us better understand our suppliers' policies and management systems, while KPI reports provide insight into their sustainability practices and performance. In fiscal year 2016, we achieved a 100 percent completion rate for SAQs and a 100 percent completion rate for KPIs. Any supplier that does not provide either an SAQ or a KPI report is automatically considered a high-risk supplier and will be audited.

## Part 3 – Risk Assessment

We evaluate our suppliers' ability to meet the EICC code, which guides how we monitor their performance and build their capacity. Our evaluation takes into consideration several dimensions of business and social risk as well as the factories' willingness to be transparent. Based on the results of our assessment, suppliers are classified by risk level. We focus our audits and capacity-building on those suppliers identified as medium or high risk. By focusing our efforts, we believe we can more effectively improve environmental practices, better protect worker rights and build a more reliable supply chain. In fiscal year 2016 we updated our risk assessment methodology to incorporate new metrics in an effort to ensure more accurate risk classifications. This will go into effect in fiscal year 2017.

## Part 4 – Monitoring

For suppliers identified as high-risk, a third-party conducts an audit and for medium-risk suppliers Best Buy conducts an audit, in order to identify any gaps between suppliers' performance and the EICC code. We not only assess their social and environmental performance, referred to as “**practices compliance**,” we also review the management system they have in place to drive EICC code compliance, which is known as “**management compliance**.”

Fiscal Year 2016 Audits	Amount
Factory Count (non-U.S.)	160
Number of Third Party-led Audits	99
Number of Best Buy-led Audits	26
Total Number of Audits	125

When non-conformance is discovered, we classify them into the following categories:

- **Priority Non-conformance** is the highest severity audit finding requiring escalation by the auditor and immediate attention by the vendor. Priority Non-conformance consists of findings which represent: 1) a serious non-conformance of the EICC code or applicable legal requirements, 2) an immediate threat to life or health, or 3) risk of serious and immediate harm to the community or environment. The identification of any Priority Non-conformance automatically results in a failed audit. Vendors must take immediate action to remedy all Priority Non-conformances through the Priority Non-conformance Remediation Process.
- **High Risk Major Non-conformance** is a significant failure in the management system that affects the ability of the system to produce the desired results and/or satisfy legally mandated requirements. The identification of High Risk Major Non-Conformances will result in a High Risk Warning. Two High Risk Warnings for the same non-conformance finding within a single year is considered the equivalent of a Priority Non-conformance.
- **Major Non-conformance** is a significant failure in the management system that affects the ability of the system to produce the desired results.
- **Minor Non-conformance** is an isolated or random incident which by itself does not indicate an inherent problem with the management system.

For all types of non-conformance, we conduct follow-up audits to determine if violations – whether priority, high risk major, major or minor – are resolved.

## Part 5 – Capacity-Building

We build our suppliers' capacity so they can close any gap between their performance and the EICC code. We periodically conduct trainings on the EICC code to ensure our suppliers have the tools to meet the code and fully understand our expectations.

In fiscal year 2016, in addition to code training, we continued to collaborate with the EICC to address a common high-risk issue – employment of student workers. Due to a labor shortage in China, some factories partner with vocational schools to fill their labor needs while at the same time providing students with internship and employment opportunities. While these students are of legal age, there are restrictions from the Chinese government on their employment, including the type and hours of work. We also set additional requirements regarding direct contracts with the students and ensuring direct payment is made to the students. Recognizing the potential risks, we take further steps to improve management of student workers that include:

- Providing select suppliers with specialized training focused on student worker management.
- Sending a letter prior to summer and winter vacation – peak season for student workers – to remind factories of our requirements.
- Providing a toolkit we developed in partnership with the EICC, select EICC member companies and the Labour Education and Service Network, a Hong Kong-based non-governmental organization, to help factories properly manage student workers.
- Sending the factories a self-assessment questionnaire so they can identify gaps in their management practices.
- Conducting audits of high-risk factories.

Looking forward, we will expand our training focus to also include worker health and safety, particularly in the areas of chemical management and fire safety. We will begin this work by conducting a survey to understand current processes. The trainings will be based on leading industry practices while addressing gaps found from survey result analysis. We intend to launch these new supplier trainings in fiscal year 2017.

## Part 6 – Reporting

Each year we publicly disclose our suppliers’ rates of compliance against the EICC code. We refer to suppliers’ social and environmental performance as “practices compliance,” and we refer to the management system they have in place to drive EICC code compliance as “management compliance.”

<b>Fiscal Year 2016 Audit Category</b>	<b>Practices Compliance</b>	<b>Management System Compliance</b>
Labor	93%	95%
Health and Safety	85%	99%
Environment	85%	95%
Ethics	100%	78%
Management System	100%	70%

In fiscal year 2016, we did not find child labor, forced labor or freedom of association violations in the factories we audited. If such a violation was to be found, it would be considered a critical violation – the highest severity audit finding – and would require escalation by the auditor and immediate attention by the vendor/factory. Best Buy suppliers are given remediation guidelines to ensure immediate corrective actions are taken, and sustained, to ensure the protection of workers and a continued business relationship with Best Buy.

## **Worker Survey**

Factories in China face a difficult labor market and often struggle to retain employees. This can have a detrimental effect on the quality of products produced at the factory and their ability to be a reliable supplier to Best Buy. To address these challenges, in the past few years, leading companies have implemented factory worker surveys in an effort to move beyond audits and drive sustainable improvements in factory conditions. In fiscal year 2016 we partnered with Verite, a global nonprofit organization dedicated to ensuring fair working conditions. Together, we piloted a worker survey program with three key factories. The worker survey not only allows Best Buy to assess labor conditions at a factory, we are also able to gain invaluable insights that can help factory management better engage workers and strengthen overall business performance through higher retention rates. Through the program, we look to gain a deeper partnership with key factories and drive increased efficiency. At the same time, we are seeking to empower our suppliers, increasing their ownership of sustainable business practices.

The first step of the worker survey consisted of a questionnaire focusing on eight key areas including compensation, working and living conditions, and worker concerns. Next, a smaller sample of workers participated in group discussions to gather feedback on factories' management practices. Finally, individual interviews were conducted with select workers to gain in-depth insights on common issues at the factory. After the worker survey, we conducted follow-up meetings with the pilot factories to help them understand the results of the survey and identify the opportunities for improvement.

In fiscal year 2017, we will continue to work with the pilot factories to track improvements made and the impacts those improvements have on worker engagement and retention. We also plan to conduct several more worker surveys at other key factories.

## Customs-Trade Partnership Against Terrorism



Our supply chain program also includes the Customs-Trade Partnership Against Terrorism (C-TPAT), a safety and security protocol intended to protect ports and secure borders by eliminating tampering, the unlawful use of containers and unauthorized entrance into shipping facilities. This includes extensive audits of the methods used to store containers securely and conduct background checks on employees and the process of earning certification for the supply chain security program.

In fiscal year 2016 we optimized the program to better align with U.S. Customs requirements and to help make suppliers' management systems stronger. Our program changes include:

- Adding more checkpoints to align our requirements with those from Customs and Border Protection (U.S. Customs)
- Assigning a risk level to each factory based on audit results; the risk level will inform audit frequency
- Accepting other certifications - Global Security Verification (GSV) and C-TPAT joint validation certifications

The Democratic Republic of the Congo (DRC) and its adjoining countries have reserves of tin, tantalum, tungsten and gold (known as 3TG), all of which are commonly used in the manufacturing of many consumer products. Occasionally, these minerals are illegally sourced and traded in the eastern DRC and surrounding areas by armed groups who are responsible for human rights violations. As such, these minerals are known as “conflict minerals.”

In 2010, the United States passed into law Section 1502 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, which requires companies to disclose whether the 3TG used in their products originated from the DRC or covered countries, as defined by the law.

Historically, we have had very limited engagement with parties beyond the direct suppliers (i.e. those suppliers with which we have a contractual agreement) in our private label supply chain. Consequently, identifying, with certainty, the smelters, refiners and recyclers and the source of the materials they process is a significant challenge. One way we address this challenge is by participating in and, in some cases, leading collaborative industry efforts that seek to gather accurate data about the sources of 3TG, and encouraging smelters to be validated as conflict-free in an effort to ensure a supply chain in which human rights abuses do not exist.

## Due Diligence

To determine the source and chain of custody of 3TG used in our private label products, we conducted due diligence on our supply chain. Our due diligence process is based on the five-step Organisation for Economic Cooperation and Development (OECD) Guidance, an internationally recognized due diligence framework.



## Performance of our Due Diligence Measures

We are working with consumer electronics and retail industry peers to maximize the efficiency and effectiveness of our efforts to identify relevant smelters and refiners, and encourage their participation in the Conflict Free Sourcing Initiative’s (CFSI) Conflict-Free Smelter Program (CFSP).

We have a Conflict Minerals Policy that established Exclusive Brands commitments regarding the sourcing of 3TG. Such commitments include aligning with the OECD Guidance, supporting industry efforts, and seeking to avoid sourcing 3TG that directly or indirectly benefit non-state armed groups. The policy also establishes expectations for our private label suppliers, including their application of relevant aspects of the OECD Guidance, supporting our efforts to identify smelters and refiners by completing an annual CMRT, and, when available, sourcing 3TG from smelters and refiners validated as conflict free. Our policy can be found at [Corporate.BestBuy.com/Sustainability](http://Corporate.BestBuy.com/Sustainability).

<b>Fiscal Year 2016 Conflict Mineral Program Key Performance Indicator</b>	<b>Percentage</b>
Exclusive Brands factories who attended training	91%
Exclusive Brands factories who received training material	100%
3TG products that have had their supply chains surveyed	100%
Exclusive Brands factories who returned a CMRT	100%

Given our position in the supply chain, we relied heavily on our direct suppliers to provide information about the smelters that provided the 3TG used in our products.

Since we do not have a direct relationship with any smelters in our supply chain, we do not conduct audits. Instead, we support the development and implementation of an effective smelter audit program through our membership in the CFSI, which administers smelter audits.

The CFSI conducts independent, third-party audits to validate that smelters source conflict-free materials. We support many CFSI activities through our participation on work groups and task forces. In particular, we serve on the CFSI Steering Committee and as the Chair of the Smelter Engagement Team, which researches and validates alleged smelters and conducts coordinated outreach to known smelters to encourage them to be audited. We also conducted a total of 20 meetings with non-validated smelter facilities in 2016 in order to provide an overview of CFSI, assess their sourcing practices and encourage their participation in the CFSI audit program.

To date, nearly 87 percent of the processing facilities reported by ExB suppliers have been validated as conflict-free via an independent, third-party audit or have committed to go through an audit. Nevertheless, based on our due diligence process and the subsequent information we gathered, we are unable to determine the origin of all the 3TG used in our products and whether armed groups directly or indirectly benefitted. This is primarily due to the lack of transparency among smelters who have not yet been audited. While there have been improvements in the systems of transparency and control for the sourcing of 3TG necessary to the functionality and/or production of our ExB products, these results are not unexpected, especially given our downstream position as a retailer and manufacturer of ExB products.

Of the smelters and refiners provided by our suppliers, we identified 23 instances for which we had reason to believe that the 3TG they processed may have originated in the DRC or an adjoining country and may not have been from recycled or scrap sources. All 23 of these processing facilities have been validated as conflict-free through CFSI or another independent, third-party audit scheme. Furthermore, we have not identified a supplier, smelter or refiner that we have reason to believe may be sourcing from the DRC or an adjoining country and – directly or indirectly – benefitting armed groups.

In fiscal year 2017, we will continue to focus our efforts on collaborating with both the retail and consumer electronic industries to improve the systems of transparency and control in our supply chain. We will also continue our engagement with ExB suppliers in order to build their knowledge so they are able to provide more complete and accurate information on the source of conflict minerals in our ExB supply chain and, furthermore, to impress upon them our expectation that they also apply the OECD Guidance in good faith.